

**ESTELLINE SCHOOL
DISTRICT NO. 28-2**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

ESTELLINE SCHOOL DISTRICT NO. 28-2
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2017

School Board

Tianna Beare

Krecia Weinberg

LeAnne Johnson

Todd Bjorklund

Ron Gorder

Business Manager

Amy Miller

Superintendent

Jim Lentz

**ESTELLINE SCHOOL DISTRICT NO. 28-2
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	19
Statement of Net Position – Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Net Position - Fiduciary Funds	23
Statement of Changes in Net Position - Fiduciary Funds	24
Notes to the Financial Statements	25
Required Supplementary Information:	
Budgetary Comparison Schedules- Budgetary Basis:	
General Fund	44
Capital Outlay Fund	46
Special Education Fund	47
Pension Fund	48
Schedule of the District's Proportionate Share of the Net Pension (Asset)	49
Schedule of the School District Contributions	50
Notes to the Required Supplementary Information	51
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52
Schedule of Audit Findings	54
Corrective Action Plan	56

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INDEPENDENT AUDITOR'S REPORT

School Board
Estelline School District No. 28-2
Hamlin County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Estelline School District No. 28-2, Hamlin County, South Dakota, (School District) as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The School District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Estelline School District No. 28-2 as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows

thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Pension Schedules, and the Budgetary Comparison Schedules, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2018, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Quam, Berglin & Post, P.C.

Elk Point, SD

January 17, 2018

ESTELLINE SCHOOL DISTRICT NO. 28-2 MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Estelline School District 28-2's annual financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended on June 30, 2017. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the School's revenues generated from taxes and other revenues of the governmental and business-type programs were \$3,139,963.19 and the governmental and business-type program expenditures totaled \$3,683,558.74.
- The district has a \$145,000 opt-out (perpetual) that will be utilized as a revenue source for the up-coming year's general fund budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the school operates like businesses. The proprietary funds operated by the school are the Food Service Operation and Other Enterprise Fund which accounts for Pre-School Services and Driver's Education.
 - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-1

**Required Components of
Estelline School's Annual Financial Report**

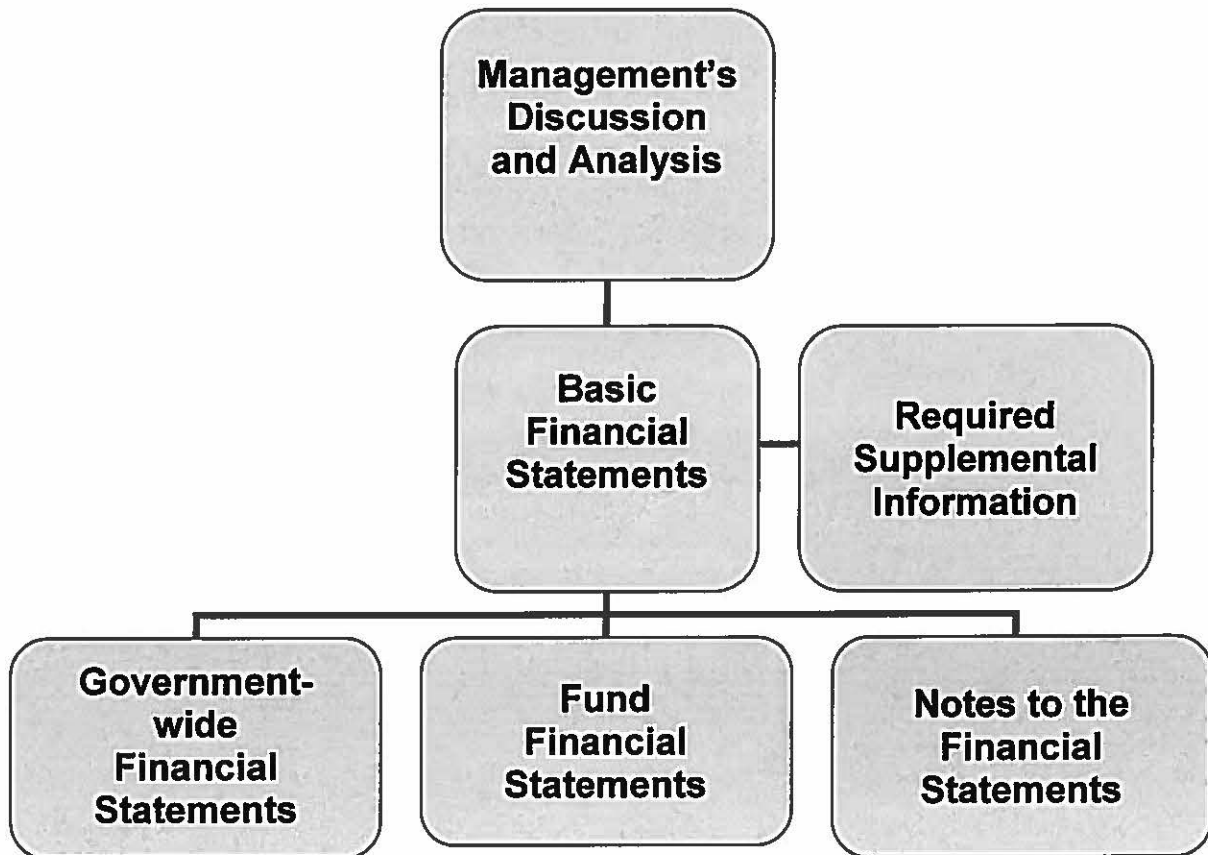


Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School government covered and the types of information contained. The remainder

of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Major Features of Estelline School's Government-wide and Fund Financial Statements				
	Government-wide	Fund Statements		
	Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except for fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to private businesses, the food service operation, pre-school services, and driver's education.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Net Position *Statement of Changes in Net Position
Accounting Basis and	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the School's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School's net position and how they have changed. Net position – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position.

- Increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the School are reported in two categories:

- **Governmental Activities** - This category includes the School's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-type Activities** - The school charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund AND Driver's Education Fund is the only business-type activity of the School.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds – not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The School has three kinds of funds:

- **Governmental Funds** – Most of the School's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the School charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund and Driver's Education Program are the only proprietary funds maintained by the School.
- **Fiduciary Funds** – The School is the trustee, or fiduciary, for various external and internal parties. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the School's government-wide financial statements because the School cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's combined net position increased as follows:

TABLE A-1
ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF NET POSITION

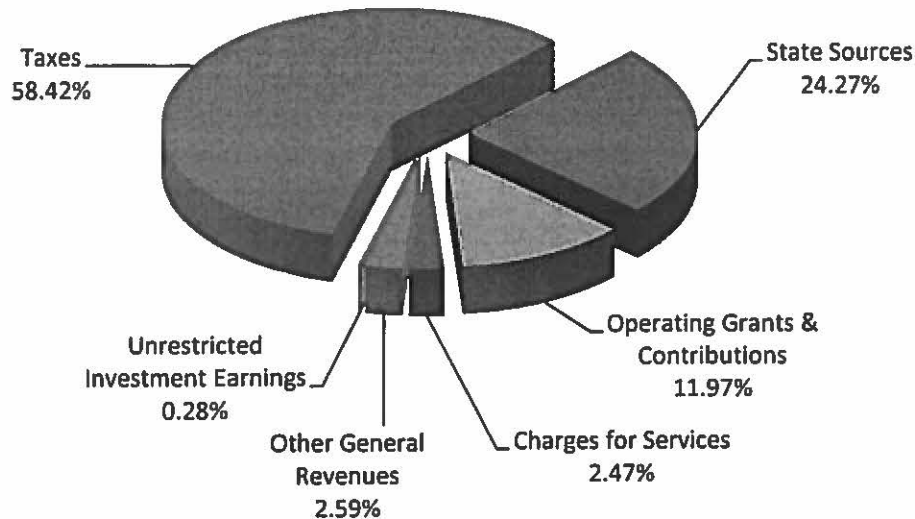
	Governmental Activities		Primary Government Business-Type Activities		Total	
	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017
Current and Other Assets	\$ 3,352,517.48	\$ 2,486,461.65	\$ (18,949.23)	\$ 14,088.85	\$ 3,333,568.25	\$ 2,500,550.50
Capital Assets (Net of Depreciation)	<u>2,940,143.52</u>	<u>3,018,323.16</u>	<u>9,401.86</u>	<u>12,611.30</u>	<u>2,949,545.38</u>	<u>3,030,934.46</u>
Total Assets	6,292,661.00	5,504,784.81	(9,547.37)	26,700.15	6,283,113.63	5,531,484.96
Pension Related Deferred Outflows	<u>547,083.14</u>	<u>604,575.36</u>			<u>547,083.14</u>	<u>604,575.36</u>
Current Liabilities	178,119.75	224,820.71	2,731.31	5,929.88	180,851.06	230,750.59
Long-Term Debt Outstanding	<u>152,660.25</u>	<u>397,613.38</u>			<u>152,660.25</u>	<u>397,613.38</u>
Total Liabilities	330,780.00	622,434.09	2,731.31	5,929.88	333,511.31	628,363.97
Pension Related Deferred Inflows	422,178.82	19,774.52			422,178.82	19,774.52
Taxes Levied for a Future Period	<u>820,208.89</u>	<u>789,072.47</u>			<u>820,208.89</u>	<u>789,072.47</u>
Total Deferred Inflows	1,242,387.71	808,846.99			1,242,387.71	808,846.99
Net Position:						
Net Investment in Capital Assets	2,940,143.52	3,018,323.16	9,401.86	12,611.30	2,949,545.38	3,030,934.46
Restricted	1,531,904.74	1,373,515.84			1,531,904.74	1,373,515.84
Unrestricted	<u>794,528.17</u>	<u>286,240.09</u>	<u>(21,680.54)</u>	<u>8,158.97</u>	<u>772,847.63</u>	<u>294,399.06</u>
Total Net Position	\$ 5,266,576.43	\$ 4,678,079.09	\$ (12,278.68)	\$ 20,770.27	\$ 5,254,297.75	\$ 4,698,849.36
Prior Period Adjustment		(11,852.84)				(11,852.84)
Adjusted Beginning Net Assets	5,562,839.83	5,254,723.59	12,386.36	(12,278.68)	5,575,226.19	5,242,444.91
Ending Net Position	<u>\$ 5,266,576.43</u>	<u>\$ 4,678,079.09</u>	<u>\$ (12,278.68)</u>	<u>\$ 20,770.27</u>	<u>\$ 5,254,297.75</u>	<u>\$ 4,698,849.36</u>
Percentage of Increase (Decrease) in						
Net Position	-5.33%	-10.97%	-199.13%	-269.16%	-5.76%	-10.37%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the school, consisting of compensated absences payable, capital leases, ASBSD payable and SDRS Pension Liability have been reported in this manner on the Statement of Net Position. The difference between the school's assets and liabilities is its net position.

Changes in Net Position

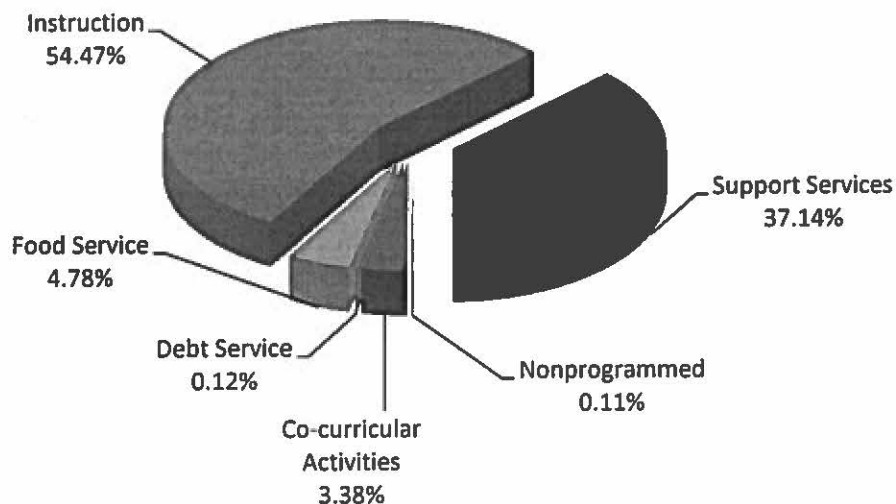
The School's total revenues totaled \$3,139,963.19. (See Table A-2.) Approximately 58.42% of the School's revenue comes from property and other taxes, with approximately 24.27% coming from state aid. (See Figure A-3).

Figure A-3
Estelline School District
Sources of Revenues for FY2017



The Estelline School's total expenses were \$3,683,558.74 (See Table A-2.) The School's expenses cover a range of services, with instruction at 54.5%, support services at 37% and food services at 5%. Debt services and co-curricular activities make up 3.5% of expenses. (See Figure A-4)

Figure A-4
Estelline School District
Functional Expenses for FY2017



GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Table A-2 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the school.

TABLE A-2
ESTELLINE SCHOOL DISTRICT NO. 28-2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017
Revenues						
Program Revenues						
Charges for Services	\$ 53,950.21	\$ 14,784.45	\$ 57,572.11	\$ 62,864.97	\$ 111,522.32	\$ 77,649.42
Operating Grants and Contributions	300,617.67	301,706.00	67,858.65	74,017.93	368,476.32	375,723.93
General Revenues						
Taxes	1,978,290.67	1,834,671.05			1,978,290.67	1,834,671.05
Revenue State Sources	516,250.13	762,053.67			516,250.13	762,053.67
Other General Revenue	64,985.02	81,225.14			64,985.02	81,225.14
Unrestricted Investment Earnings	7,536.81	8,639.98			7,536.81	8,639.98
Total Revenues	2,921,630.51	3,003,080.29	125,430.76	136,882.90	3,047,061.27	3,139,963.19
Expenses						
Instruction	1,742,844.91	2,000,797.22			1,742,844.91	2,000,797.22
Support Services	1,329,375.44	1,364,584.68			1,329,375.44	1,364,584.68
Nonprogrammed Charges	9,375.50	4,198.36			9,375.50	4,198.36
Debt Services	5,951.04	4,329.02			5,951.04	4,329.02
Cocurricular Activities	124,451.09	124,196.78			124,451.09	124,196.78
Food Service			149,875.99	175,608.59	149,875.99	175,608.59
Driver's Education Program			6,115.74	9,844.09	6,115.74	9,844.09
Total Expenses	3,211,997.98	3,498,106.06	155,991.73	185,452.68	3,367,989.71	3,683,558.74
Increase (Decrease) in Net Position	(296,263.40)	(576,644.50)	(24,665.04)	33,048.95	(320,928.44)	(543,595.55)
NET POSITION - ENDING	\$ 5,266,576.43	\$ 4,678,079.09	\$ (12,278.68)	\$ 20,770.27	\$ 5,254,297.75	\$ 4,698,849.36

GOVERNMENTAL ACTIVITIES

The general fund showed a decrease in income for the year. The general fund showed an increase in Instruction expenses due to substantial pay increases for the certified teaching staff.

BUSINESS-TYPE ACTIVITIES

The Estelline School District had a net increase of \$35,146.19 in its food service net position. Factors contributing to these results included:

- There was a transfer in from the General Fund.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The General Fund had a decrease of \$544,301.08 in its fund balance and ended the fiscal year at \$403,335.19. The Capital Outlay fund balance decreased by \$34,412.37 with an ending balance at \$870,658.40. The Special Education Fund increased by \$64,317.89 with an ending balance of \$15,944.58.

GENERAL FUND BUDGETARY HIGHLIGHTS

In this fiscal year the school had negotiated substantial pay increases for the certified teaching staff along with the ever-increasing health care costs which contributed to bringing the general fund balance back down. The district also transferred funds to the Special Education Fund and the Food Service and Driver's Education Program from General Fund. This brought these other funds to a positive fund balance so they are no longer running in the negative at year end.

The board has elected to implement the \$145,000.00 perpetual opt-out and maximum capital outlay levies for FY18. There is also a pay out to ASBSD for health insurance coverage that will be paid out in FY18 for \$107,450.00; along with the ongoing increases in wages and benefits that will contribute to the General Fund Balance substantially decreasing in the Fund Balance percentage to be in compliance with the FY 2019 cash balance caps.

CAPITAL ASSET ADMINISTRATION

By the end of the 2017 fiscal year, the School had invested \$3,030,934 in capital assets (net of depreciation) including, land, buildings, various machinery and equipment. (See Table A-3.) This amount represents an increase of \$81,388 (including additions and deductions), over last year.

Table A-3
ESTELLINE SCHOOL DISTRICT NO. 28-2 - Capital Assets
(Net of Depreciation)

	Governmental Activities			Business-Type Activities		
	FY2016	FY2017	Increase/ (Decrease)	FY2016	FY2017	Increase/ (Decrease)
Land	\$ 42,998	\$ 42,998	\$	\$	\$	\$
Construction Work in Progress		15,500	15,500			
Buildings	2,413,851	2,351,932	(61,919)			
Improvements other than Building	335,858	491,598	155,740			
Machinery and Equipment	121,069	93,564	(27,505)	9,402	12,611	3,209
Library Books	26,368	22,731	(3,637)			
Total Capital Assets	<u>\$ 2,940,144</u>	<u>\$ 3,018,323</u>	<u>\$ 78,179</u>	<u>\$ 9,402</u>	<u>\$ 12,611</u>	<u>\$ 3,209</u>

This year's capital asset purchases include whiteboards, architect/engineering fee for upcoming boiler replacement in FY18, scissor lift, high school roof, and weight room renovation in arena.

LONG-TERM DEBT

At fiscal year-end 2017 the Estelline School District had \$107,450.00 still outstanding to be paid on a contract with ASBSD in fiscal year 2018. A SDRS Pension Liability for the amount of \$245,889.29 was added during fiscal year 2017. These represent a total increase of 160.46% as shown on Table A-4 below.

Table A-4
ESTELLINE SCHOOL DISTRICT NO. 28-2
Outstanding Debt and Obligations

	Governmental Activities		Total % Change
	<u>FY2016</u>	<u>FY2017</u>	
ASBSD Contract Payable	\$ 107,450.00	\$ 107,450.00	0.00%
Capital Acquisition Lease	21,573.00	17,258.40	-20.00%
SDRS Pension Liability		245,889.29	100.00%
Compensated Absences	<u>23,637.25</u>	<u>27,015.69</u>	14.29%
Total Long-Term Liabilities	<u>\$ 152,660.25</u>	<u>\$ 397,613.38</u>	
Net Increase (Decrease)		160.46%	

The School is liable for the accrued sick leave payable to the superintendent and certified employees.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

One of the primary sources of revenue to the School is based on local tax collections set by the State Legislative body and the State Formula that determines the need of the school district to adequately fund average teacher compensation. The State will make up the difference from local taxes revenue and the targeted need per school, which makes the per student aid vary from district to district. Classroom size and certified instructional staff has now become a factor in what is received in state aid versus the weighted student enrollment as in the past. The Estelline School District will continue base our next year's budgets on tax valuations and state aid.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Estelline School Business Office, PO Box 306, Estelline, SD 57234

ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
Cash and Cash Equivalents	\$ 1,032,687.29	\$ 5,339.71	\$ 1,038,027.00
Investments-Certificates of Deposit	523,339.58		523,339.58
Accounts Receivable		1,371.55	1,371.55
Taxes Receivable	813,096.84		813,096.84
Due from Other Governments	117,337.94	3,319.38	120,657.32
Inventories		4,058.21	4,058.21
Capital Assets:			
Land and Construction in Progress	58,498.47		58,498.47
Other Capital Assets, Net of Depreciation	2,959,824.69	12,611.30	2,972,435.99
TOTAL ASSETS	<u>5,504,784.81</u>	<u>26,700.15</u>	<u>5,531,484.96</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	<u>604,575.36</u>		<u>604,575.36</u>
LIABILITIES :			
Accounts Payable	26,246.02	134.31	26,380.33
Accrued Wages and Benefits	198,574.69	1,554.74	200,129.43
Unearned Revenue		4,240.83	4,240.83
Noncurrent Liabilities:			
Due Within One Year	125,272.45		125,272.45
Due in More than One Year	<u>272,340.93</u>		<u>272,340.93</u>
TOTAL LIABILITIES	<u>622,434.09</u>	<u>5,929.88</u>	<u>628,363.97</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension Related Deferred Inflows	19,774.52		19,774.52
Taxes Levied for Future Period	<u>789,072.47</u>		<u>789,072.47</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>808,846.99</u>		<u>808,846.99</u>
NET POSITION:			
Net Investment in Capital Assets	3,018,323.16	12,611.30	3,030,934.46
Restricted for:			
Capital Outlay	855,694.26		855,694.26
Bond Redemption	706.01		706.01
Special Education	18,980.94		18,980.94
SDRS Pension Purposes	338,911.55		338,911.55
Pension Fund	159,223.08		159,223.08
Unrestricted	<u>286,240.09</u>	8,158.97	<u>294,399.06</u>
TOTAL NET POSITION	<u>\$ 4,678,079.09</u>	<u>\$ 20,770.27</u>	<u>\$ 4,698,849.36</u>

The notes to the financial statements are an integral part of this statement

ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary Government:						
Governmental Activities:						
Instruction	\$2,000,797.22	\$	\$ 301,706.00	\$ (1,699,091.22)	\$	\$(1,699,091.22)
Support Services	1,364,584.68			(1,364,584.68)		(1,364,584.68)
*Interest on Long-term Debt	4,329.02			(4,329.02)		(4,329.02)
Nonprogrammed Charges	4,198.36			(4,198.36)		(4,198.36)
Cocurricular Activities	124,196.78	14,784.45		(109,412.33)		(109,412.33)
Total Governmental Activities	<u>3,498,106.06</u>	<u>14,784.45</u>	<u>301,706.00</u>	<u>(3,181,615.61)</u>		<u>(3,181,615.61)</u>
Business-type Activities:						
Food Service	175,608.59	59,139.97	74,017.93		(42,450.69)	(42,450.69)
Drivers Education Program	9,844.09	3,725.00			(6,119.09)	(6,119.09)
Total Business-type Activities	<u>185,452.68</u>	<u>62,864.97</u>	<u>74,017.93</u>		<u>(48,569.78)</u>	<u>(48,569.78)</u>
Total Primary Government	<u>\$ 3,683,558.74</u>	<u>\$ 77,649.42</u>	<u>\$ 375,723.93</u>	<u>(3,181,615.61)</u>	<u>(48,569.78)</u>	<u>(3,230,185.39)</u>
		General Revenues:				
		Taxes:				
		Property Taxes		1,734,999.00		1,734,999.00
		Utility Taxes		99,672.05		99,672.05
		Revenue from State Sources:				
		State Aid		762,053.67		762,053.67
		Unrestricted Investment Earnings		8,639.98		8,639.98
		Other General Revenues		81,225.14		81,225.14
		Transfers:		(81,618.73)	81,618.73	
		Total General Revenues and Transfers:		<u>2,604,971.11</u>	<u>81,618.73</u>	<u>2,686,589.84</u>
		Change in Net Position		(576,644.50)	33,048.95	(543,595.55)
		Net Position - Beginning		5,266,576.43	(12,278.68)	5,254,297.75
		Prior Period Adjustment		(11,852.84)		(11,852.84)
		Adjusted Net Position-Beginning		<u>5,254,723.59</u>	<u>(12,278.68)</u>	<u>5,242,444.91</u>
		NET POSITION - ENDING		<u>\$ 4,678,079.09</u>	<u>\$ 20,770.27</u>	<u>\$ 4,698,849.36</u>

*The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The notes to the financial statements are an integral part of this statement

ESTELLINE SCHOOL DISTRICT NO. 28-2
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Bond Redemption Fund	Total Governmental Funds
ASSETS:						
Cash and Cash Equivalents	\$ 428,629.03	\$ 396,342.62	\$ 49,109.71	\$158,605.93	\$	\$ 1,032,687.29
Investments-Certificates of Deposit	48,523.80	474,815.78				523,339.58
Taxes Receivable-Current	444,344.77	128,822.73	215,904.97			789,072.47
Taxes Receivable-Delinquent	17,370.59	2,294.26	3,036.36	617.15	706.01	24,024.37
Due from Other Governments	105,022.05		12,315.89			117,337.94
TOTAL ASSETS	<u>\$1,043,890.24</u>	<u>\$1,002,275.39</u>	<u>\$280,366.93</u>	<u>\$159,223.08</u>	<u>\$ 706.01</u>	<u>\$ 2,486,461.65</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 2,638.66	\$ 500.00	\$ 23,107.36	\$	\$	\$ 26,246.02
Contracts Payable	137,390.64		17,033.03			154,423.67
Payroll Deductions and Withholdings and Employer Matching Payable	38,810.39		5,340.63			44,151.02
Total Liabilities	<u>178,839.69</u>	<u>500.00</u>	<u>45,481.02</u>			<u>224,820.71</u>
Deferred Inflows of Resources:						
Taxes Levied for a Future Period	444,344.77	128,822.73	215,904.97			789,072.47
Unavailable Revenue-Property Taxes	17,370.59	2,294.26	3,036.36	617.15	706.01	24,024.37
Total Deferred Inflows of Resources	<u>461,715.36</u>	<u>131,116.99</u>	<u>218,941.33</u>	<u>617.15</u>	<u>706.01</u>	<u>813,096.84</u>
Fund Balances:						
Restricted		870,658.40	15,944.58	158,605.93		1,045,208.91
Assigned	293,928.80					293,928.80
Unassigned	109,406.39					109,406.39
Total Fund Balances	<u>403,335.19</u>	<u>870,658.40</u>	<u>15,944.58</u>	<u>158,605.93</u>		<u>1,448,544.10</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$1,043,890.24</u>	<u>\$1,002,275.39</u>	<u>\$280,366.93</u>	<u>\$159,223.08</u>	<u>\$ 706.01</u>	<u>\$ 2,486,461.65</u>

The notes to the financial statements are an integral part of this statement

ESTELLINE SCHOOL DISTRICT NO. 28-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balances - Governmental Funds	\$1,448,544.10
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Amounts reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital Assets	\$ 6,381,530.05	
Accumulated Depreciation	<u>(3,363,206.89)</u>	3,018,323.16

Long-term liabilities, including bonds payable, capital leases payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Capital (Acquisition) Leases	(17,258.40)	
ASBSD Contract Payable	(107,450.00)	
SDRS Liability	(245,889.29)	
Compensated Absences	<u>(27,015.69)</u>	(397,613.38)

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.

604,575.36

Pension related deferred inflows are components of pension liability and therefore are not reported in the funds.

(19,774.52)

Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.

24,024.37

Net Position- Governmental Funds	<u>\$4,678,079.09</u>
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The notes to the financial statements are an integral part of this statement

ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Revenues:						
Revenue from Local Sources:						
Taxes:						
Ad Valorem Taxes	\$ 943,009.52	\$284,264.48	\$444,187.99	\$ 38,460.58	\$	\$ 1,709,922.57
Prior Years' Ad Valorem Taxes	10,466.63	2,265.21	2,976.19	610.68	399.55	16,718.26
Utility Taxes	99,672.05					99,672.05
Penalties and Interest on Taxes	1,968.02	601.88	811.28	158.78	65.41	3,605.37
Earnings on Investments and Deposits	8,598.25				41.73	8,639.98
Cocurricular Activities:						
Admissions	14,784.45					14,784.45
Other Revenue from Local Sources:						
Contributions and Donations	1,194.22	15,000.00				16,194.22
Charges for Services	3,256.41		5,318.47			8,574.88
Other	8,801.18		31,310.00			40,111.18
Revenue from Intermediate Sources:						
County Sources:						
County Apportionment	15,537.40					15,537.40
Revenue in Lieu of Taxes	112.75	71.87	101.26	21.58		307.46
Revenue from State Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid	762,053.67					762,053.67
Restricted Grants-in-Aid	190.00		211,550.00			211,740.00
Other	500.00					500.00
Revenue from Federal Sources:						
Grants-in-Aid:						
Restricted Grants-in-Aid Received from Federal Government Through the State	70,274.98	19,691.02				89,966.00
Total Revenue	<u>1,940,419.53</u>	<u>321,894.46</u>	<u>696,255.19</u>	<u>39,251.62</u>	<u>506.69</u>	<u>2,998,327.49</u>

Expenditures:

Instruction:

Regular Programs:

Elementary	636,882.67	6,436.29		643,318.96
Middle/Junior High	136,176.27			136,176.27
High School	522,207.81	16,844.86		539,052.67
Preschool Services	50,552.05			50,552.05

Special Programs:

Programs for Special Education		3,778.02	402,700.14	406,478.16
Educationally Deprived	67,655.23			67,655.23

Support Services:

Pupils:

Guidance	58,698.40		491.52	59,189.92
Health	2,073.95		21,466.00	23,539.95
Psychological			9,372.00	9,372.00
Speech Pathology			35,230.56	35,230.56
Audiology			1,677.00	1,677.00
Student Therapy Services			33,847.28	33,847.28

Support Services - Instructional Staff:

Improvement of Instruction	5,088.33			5,088.33
Educational Media	65,283.60	11,879.75		77,163.35

Support Services - General Administration:

Board of Education	23,675.21		1,283.84	24,959.05
Executive Administration	75,055.51	1,041.00		76,096.51

Support Services - School Administration:

Office of the Principal	227,376.76	1,290.99		228,667.75
Other	152.34			152.34

Support Services - Business:

Fiscal Services	98,863.94	1,289.00		100,152.94
Operation and Maintenance of Plant	295,958.42	7,966.18		303,924.60
Student Transportation	119,987.21			119,987.21
Food Services		4,795.00		4,795.00

Support Services - Special Education:

Transportation Costs			85,765.21	85,765.21
Other Special Education Costs			97,700.24	97,700.24

Debt Services

	8,643.62			8,643.62
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ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Bond Redemption Fund</u>	<u>Total Governmental Funds</u>
Nonprogrammed Charges:						
Early Retirement	4,198.36					4,198.36
Cocurricular Activities:						
Male Activities	18,120.26					18,120.26
Female Activities	21,597.62					21,597.62
Transportation	8,737.73					8,737.73
Combined Activities	45,058.72	12,444.57				57,503.29
Capital Outlay		260,558.40				260,558.40
Total Expenditures	<u>2,483,400.39</u>	<u>336,967.68</u>	<u>689,533.79</u>			<u>3,509,901.86</u>
Excess of Revenue Over (Under)						
Expenditures	<u>(542,980.86)</u>	<u>(15,073.22)</u>	<u>6,721.40</u>	<u>39,251.62</u>	<u>506.69</u>	<u>(511,574.37)</u>
Other Financing Sources (Uses):						
Transfer In	133,100.00	109,560.85	57,596.49			300,257.34
Transfer (Out)	<u>(134,420.22)</u>	<u>(128,900.00)</u>		<u>(4,200.00)</u>	<u>(109,560.85)</u>	<u>(377,081.07)</u>
Total Other Financing Sources (Uses)	<u>(1,320.22)</u>	<u>(19,339.15)</u>	<u>57,596.49</u>	<u>(4,200.00)</u>	<u>(109,560.85)</u>	<u>(76,823.73)</u>
Net Change in Fund Balances	<u>(544,301.08)</u>	<u>(34,412.37)</u>	<u>64,317.89</u>	<u>35,051.62</u>	<u>(109,054.16)</u>	<u>(588,398.10)</u>
Fund Balance - Beginning	959,489.11	905,070.77	(48,373.31)	123,554.31	109,054.16	2,048,795.04
Prior Period Adjustment	<u>(11,852.84)</u>					<u>(11,852.84)</u>
Adjusted Fund Balance - Beginning	<u>947,636.27</u>	<u>905,070.77</u>	<u>(48,373.31)</u>	<u>123,554.31</u>	<u>109,054.16</u>	<u>2,036,942.20</u>
FUND BALANCE - ENDING	<u>\$ 403,335.19</u>	<u>\$870,658.40</u>	<u>\$ 15,944.58</u>	<u>\$158,605.93</u>	<u>\$ 0.00</u>	<u>\$1,448,544.10</u>

The notes to the financial statements are an integral part of this statement

ESTELLINE SCHOOL DISTRICT NO. 28-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ (588,398.10)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report property taxes as revenue when they meet available criteria, that is collectible within one normal bill paying cycle; but the statement of activities includes the property taxes as revenue when earned.	4,752.80
Capital Outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities these costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceeds depreciation expense in the period.	78,179.64
Repayment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position	
Capital Lease Payable	4,314.60
Changes in the pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds.	(72,115.00)
In the statement of activities, certain operating expenses (compensated absences and early retirement benefits) are measured by the amounts earned and paid during the year. In the governmental funds however, expenditures for these items are different than the amount of financial resources used. This is the change in the current year:	
Change in compensated absences	<u>(3,378.44)</u>
Change in Net Position of Governmental Activities	<u>\$ (576,644.50)</u>

The notes to the financial statements are an integral part of this statement.

ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	<u>Enterprise Funds</u>		
	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Total</u>
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 3,668.36	\$ 1,671.35	\$ 5,339.71
Accounts Receivable	1,371.55		1,371.55
Due from Other Governments	3,319.38		3,319.38
Inventory of Supplies	73.93		73.93
Inventory of Stores Purchased for Resale	976.33		976.33
Inventory of Donated Food	<u>3,007.95</u>		<u>3,007.95</u>
 Total Current Assets	 <u>12,417.50</u>	 <u>1,671.35</u>	 <u>14,088.85</u>
Capital Assets:			
Machinery and Equipment	71,135.87		71,135.87
Less: Accumulated Depreciation	<u>(58,524.57)</u>		<u>(58,524.57)</u>
Total Noncurrent Assets	<u>12,611.30</u>		<u>12,611.30</u>
 TOTAL ASSETS	 <u>25,028.80</u>	 <u>1,671.35</u>	 <u>26,700.15</u>
 LIABILITIES:			
Current Liabilities:			
Accounts Payable		134.31	134.31
Contracts Payable	18.00	1,350.00	1,368.00
Payroll Deductions and Withholdings and Employer Matching Payable	2.46	184.28	186.74
Unearned Revenue	<u>4,240.83</u>		<u>4,240.83</u>
Total Current Liabilities	<u>4,261.29</u>	<u>1,668.59</u>	<u>5,929.88</u>
 NET POSITION:			
Net Investment in Capital Assets	12,611.30		12,611.30
Unrestricted Net Position	<u>8,156.21</u>	<u>2.76</u>	<u>8,158.97</u>
 Total Net Position	 <u>\$ 20,767.51</u>	 <u>\$ 2.76</u>	 <u>\$ 20,770.27</u>

The notes to the financial statements are an integral part of this statement.

ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

		<u>Enterprise Funds</u>	
	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Total</u>
Operating Revenue:			
Sales:			
To Pupils	\$ 53,383.82	\$	\$ 53,383.82
To Adults	5,755.10		5,755.10
Other Charges for Goods & Services	1.05	3,725.00	3,726.05
Total Operating Revenue	<u>59,139.97</u>	<u>3,725.00</u>	<u>62,864.97</u>
Operating Expenses:			
Salaries	50,080.03	8,400.00	58,480.03
Employee Benefits	29,655.69	1,146.62	30,802.31
Purchased Services	4,571.02		4,571.02
Supplies	3,445.76	297.47	3,743.23
Cost of Sales-Purchased Food	75,957.35		75,957.35
Cost of Sales-Donated Food	10,142.93		10,142.93
Other	170.25		170.25
Depreciation	1,585.56		1,585.56
Total Operating Expenses	<u>175,608.59</u>	<u>9,844.09</u>	<u>185,452.68</u>
Operating Income (Loss)	<u>(116,468.62)</u>	<u>(6,119.09)</u>	<u>(122,587.71)</u>
Nonoperating Revenue (Expense):			
Local Sources:			
Miscellaneous	2,527.00		2,527.00
State Sources:			
State Reimbursements	721.61		721.61
Federal Sources:			
Cash Reimbursements	60,626.39		60,626.39
Donated Food	10,142.93		10,142.93
Total Nonoperating Revenue (Expense)	<u>74,017.93</u>		<u>74,017.93</u>
Income (Loss) Before Transfers	<u>(42,450.69)</u>	<u>(6,119.09)</u>	<u>(48,569.78)</u>
Transfer In	72,801.88	4,021.85	76,823.73
Capital Contributions	4,795.00		4,795.00
Change in Net Position	<u>35,146.19</u>	<u>(2,097.24)</u>	<u>33,048.95</u>
Net Position - Beginning	<u>(14,378.68)</u>	<u>2,100.00</u>	<u>(12,278.68)</u>
NET POSITION- ENDING	<u>\$ 20,767.51</u>	<u>\$ 2.76</u>	<u>\$ 20,770.27</u>

The notes to the financial statements are an integral part of this statement.

ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Enterprise Funds		
	Food Service Fund	Other Enterprise Fund	Total
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 59,641.60	\$ 3,725.00	\$ 63,366.60
Payments to Suppliers	(83,974.13)	(297.47)	(84,271.60)
Other Payments	(170.25)		(170.25)
Payments to Employees	(79,932.22)	(8,024.73)	(87,956.95)
Net Cash Provided (Used) by Operating Activities	<u>(104,435.00)</u>	<u>(4,597.20)</u>	<u>(109,032.20)</u>
Cash Flows from Noncapital Financing Activities:			
Transfer In	42,700.00	4,021.85	46,721.85
Operating Subsidies	65,403.36		65,403.36
Net Cash Flows Provided (Used) by Noncapital Financing	<u>108,103.36</u>	<u>4,021.85</u>	<u>112,125.21</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 3,668.36</u>	<u>\$ (575.35)</u>	<u>\$ 3,093.01</u>
Cash and Cash Equivalents at Beginning of Year	\$ 0.00	\$ 2,246.70	\$ 2,246.70
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>3,668.36</u>	<u>1,671.35</u>	<u>5,339.71</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 3,668.36</u>	<u>\$ (575.35)</u>	<u>\$ 3,093.01</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ (116,468.62)	\$ (6,119.09)	\$ (122,587.71)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	1,585.56		1,585.56
Value of Commodities Used	10,142.93		10,142.93
Change in Assets and Liabilities:			
Receivables	(1,371.55)		(1,371.55)
Unearned Revenues	1,873.18		1,873.18
Accounts and Other Payables	(196.50)	1,521.89	1,325.39
Net Cash Provided (Used) by Operating Activities	<u>\$ (104,435.00)</u>	<u>\$ (4,597.20)</u>	<u>\$ (109,032.20)</u>
Noncash Investing, Capital and Financing Activities:			
Value of Commodities Received	\$ 10,142.93		
Capital Assets Purchased by Capital Outlay Fund	4,795.00		
Loan Prior Year Forgiven	30,101.88		

The notes to the financial statements are an integral part of this statement.

ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash and Cash Equivalents	\$ 4,310.18	\$ 47,707.53
Investments-Certificates of Deposit	5,282.42	
Accounts Receivable	<u> </u>	<u>500.00</u>
 TOTAL ASSETS	 <u>9,592.60</u>	 <u>48,207.53</u>
 LIABILITIES:		
Amounts Held for Others	<u> </u>	<u>48,207.53</u>
 Total Liabilities	 <u> </u>	 <u>\$ 48,207.53</u>
 NET POSITION	 <u><u>\$ 9,592.60</u></u>	

The notes to the financial statements are an integral part of this statement.

**ESTELLINE SCHOOL DISTRICT NO. 28-2
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Donations	\$ 1,772.77
Investment Earnings	<u>21.03</u>
Total Additions	<u>1,793.80</u>
DEDUCTIONS:	
Other Deductions	<u>23.99</u>
Total Deductions	<u>23.99</u>
Change in Net Position	1,769.81
Net Position - Beginning	<u>7,822.79</u>
NET POSITION - ENDING	<u><u>\$ 9,592.60</u></u>

The notes to the financial statements are an integral part of this statement.

ESTELLINE SCHOOL DISTRICT NO. 28-2
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to generally accepted accounting principles applicable to government entities of the United States of America.

a. Financial Reporting Entity

The reporting entity of Estelline School District No. 28-2 consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as component unit, but are discussed in these notes because of their relationship with the School District.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Position reports all financial and capital resources, in a net position form (assets and deferred outflows of resources minus liabilities and deferred outflows of resources equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and

expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

1. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Funds - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the school district's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.

Debt Service Funds – Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Bond Redemption Fund – A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on general obligation bonded debt. The Bond Redemption Fund is the only debt service fund maintained by the School District. This is a major fund.

Proprietary Funds:

Enterprise Funds - enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. *The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)*
- b. *Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.*
- c. *The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).*

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Other Enterprise Funds – A fund used to record financial transactions related to pre-school services and drivers education instruction conducted for the benefit of the children. This fund is financed by user charges. This is a major fund.

Fiduciary Funds:

Fiduciary Funds consist of the following sub-categories and are never considered to be major funds:

Private-Purpose Trust Funds – private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains only the following private-purpose trust fund:

Rural Museum Trust Fund – A fund generated from donations for the purpose of the care and upkeep of the rural school museum.

Agency Funds - agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds for the following purposes: student class funds, student club funds and clearing accounts.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the School District is 60 days. The revenues which were accrued at June 30, 2016 are amounts due from other governments for grants.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary fund and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

e. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

f. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for us. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

The total June 30, 2017 balance of capital assets for governmental activities includes approximately 1.73% for which the costs were determined by estimates of the original costs. The total June 30, 2017 balance of capital assets for business-type activities are all valued at the original cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to

the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	NA	NA
Improvements	\$ 10,000	Straight Line	15-25 yrs
Buildings	20,000	Straight Line	50 yrs
Machinery and Equipment	2,500	Straight Line	5-20 yrs
Food Service Machinery and Equipment	1,000	Straight Line	5-20 yrs

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

g. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of ASBSD payable, capital acquisition financing leases, compensated absences and SDRS Liability payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

h. Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

- a. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
- b. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
- c. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

I.. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

j. Deferred Inflows and Deferred Outflows of Resources:

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

k. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand and all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

I. Equity Classifications

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in three components

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

m. Application of Net Position:

It is the School District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

n. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses *restricted /committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

The School District does not have a formal minimum fund balance policy.

A schedule of fund balances is provided as follows:

ESTELLINE SCHOOL DISTRICT NO. 28-2
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Pension Fund</u>	<u>Total Governmental Funds</u>
Fund Balances:					
<i>Restricted for:</i>					
Capital Outlay	\$	\$870,658.40	\$	\$	\$ 870,658.40
Special Education			15,944.58		15,944.58
Pension				158,605.93	158,605.93
<i>Assigned to:</i>					
Unemployment	48,523.80				48,523.80
Subsequent Budget	245,405.00				245,405.00
<i>Unassigned</i>	<u>109,406.39</u>				<u>109,406.39</u>
Total Fund Balances	<u>\$ 403,335.19</u>	<u>\$870,658.40</u>	<u>\$ 15,944.58</u>	<u>\$158,605.93</u>	<u>\$1,448,544.10</u>

o. Pensions:

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. School District contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

NOTE 2 ~ DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits school funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political

subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has an investment policy that would further limit its investment choices.

Interest Rate Risk – The school district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - The school district places no limit on the amount that may be invested in any one issuer.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the General Fund except for the Debt Service Fund which retains its earnings. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Investment earnings were not material to the individual funds.

NOTE 3 – RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

NOTE 4 – INVENTORY

Inventory for resale is stated at the lower of cost or market. The cost valuation method is the first in, first out method. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the government-wide and proprietary fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. No material inventories were on hand as of June 30, 2017 in the governmental funds.

NOTE 5 - PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from

property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

NOTE 6 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

Primary Government:

	Balance 06/30/16	Increases	Decreases	Balance 06/30/17
Capital Assets, not depreciated:				
Land	\$ 42,998.47	\$	\$	\$ 42,998.47
Construction Work In Process		15,500.00		15,500.00
Totals	<u>42,998.47</u>	<u>15,500.00</u>		<u>58,498.47</u>
Capital Assets, being depreciated:				
Buildings	4,144,734.79			4,144,734.79
Improvements	928,402.70	219,813.99		1,148,216.69
Library Books	136,495.54	3,356.91		139,852.45
Machinery and Equipment	868,340.15	21,887.50		890,227.65
Totals	<u>6,077,973.18</u>	<u>245,058.40</u>		<u>6,323,031.58</u>
Less Accumulated Depreciation:				
Buildings	1,730,883.66	61,919.52		1,792,803.18
Improvements	592,545.27	64,074.05		656,619.32
Library Books	110,127.88	6,992.62		117,120.50
Machinery and Equipment	747,271.32	49,392.57		796,663.89
Totals	<u>3,180,828.13</u>	<u>182,378.76</u>		<u>3,363,206.89</u>
Capital Assets being depreciated, net	<u>2,897,145.05</u>	<u>62,679.64</u>		<u>2,959,824.69</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 2,940,143.52</u>	<u>\$ 78,179.64</u>	<u>\$</u>	<u>\$ 3,018,323.16</u>

Depreciation expense was charged to the functions as follows:

Instruction	\$ 82,070.44
Support Service	82,070.44
Co-curricular	<u>18,237.88</u>
Total Depreciation expense-governmental activities	<u>\$ 182,378.76</u>

Business-Type Activity	Balance 06/30/16	Increases	Decreases	Balance 06/30/17
Capital Assets being Depreciated				
Machinery & Equipment	\$ 66,340.87	\$ 4,795.00	\$	\$ 71,135.87
Less Accumulated Depreciation				
Machinery & Equipment	56,939.01	1,585.56		58,524.57
Total Business-type Activity	<u>\$ 9,401.86</u>	<u>6,380.56</u>	<u>\$</u>	<u>\$ 12,611.30</u>

Depreciation expense was charged to functions as follows:

Business-type activity

Food Service \$ 1,585.56

NOTE 7 – LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2017 is as follows:

<i>Primary Government</i>	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities:					
Financing (Capital Acquisition) Lease	\$ 21,573.00	\$	\$ 4,314.60	\$ 17,258.40	\$ 4,314.60
SDRS Pension Liability		245,889.29		245,889.29	
ASBSD Contract Payable	107,450.00			107,450.00	107,450.00
Accrued Compensated Absences	23,637.25	14,311.04	10,932.60	27,015.69	13,507.85
Total Primary Government	<u>\$ 152,660.25</u>	<u>\$ 260,200.33</u>	<u>\$ 15,247.20</u>	<u>\$ 397,613.38</u>	<u>\$ 125,272.45</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund.

The annual debt service requirements to maturity, except for compensated absences and SDRS Pension Liability, for all debt outstanding as of June 30, 2017, are as follows:

Year Ending June 30	Financing (Capital Acquisition) Leases		ASBSD Contract	Total	
	Principal	Interest		Principal	Interest
			Principal		
2018	\$ 4,314.60	\$	\$ 107,450.00	\$ 111,764.60	\$
2019	4,314.60			4,314.60	
2020	4,314.60			4,314.60	
2021	4,314.60			4,314.60	
Totals	<u>\$ 17,258.40</u>	<u>\$</u>	<u>\$ 107,450.00</u>	<u>\$ 124,708.40</u>	<u>\$</u>

Liabilities payable at June 30, 2017 are comprised of the following:

Compensated Absences:

Payment for Accrued Sick and Personal Leave

Payments to be made by the fund with the related charges for payroll expenses. \$ 27,015.69

Financing (Capital Acquisition) Leases:

Capital lease financing for the purchase of copiers, due in 60 monthly installments of \$780.45, including interest at 0%. Final payment due August 2016. Payable from Capital Outlay Fund. 17,258.40

Due to ASBSD Protective Trust

Agreement with the South Dakota School District Benefits Fund for an assessment of participation amount of current deficit held in this fund. Payment to be paid from General Fund. 107,450.00

SDRS Pension Liability

Net Pension Liability (See Note 10) 245,889.29

The purchase price at the commencement of the financing (capital acquisition) lease was:

	<u>Copier Lease</u>
Principal	\$21,573.00
Interest	
Total	<u>\$21,573.00</u>

NOTE 8 – PRIOR PERIOD ADJUSTMENT

Title I revenues were overstated in a prior year in the amount of \$9,588. In addition, in prior years Driver's Education Fund expenses were not funded correctly, resulting in a cash shortage to the General Fund in the amount of \$2,264.84. The total of these two adjustments, in the amount of \$11,852.84, decreases the beginning General Fund balance.

NOTE 9 - RESTRICTED NET POSITION

Restricted net position for the fiscal year ended June 30, 2017 was as follows:

<u>Major Purposes</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Purposes	Law	\$ 855,694.26
Special Education Purposes	Law	\$ 18,980.94
Pension Fund Purposes	Law	159,223.08
SDRS Pension Purposes	Law	338,911.55
Debt Service Purposes	Debt Covenants	706.01
Total Restricted Net Position		<u>\$ 1,373,515.84</u>

NOTE 10 – PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable one each July 1 is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded – 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded – 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2017, 2016, and 2015 were \$95,504, \$83,050, and \$73,899, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the School District as of June 30, 2017 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 7,899,006.34
Less proportionate share of total pension liabilities	<u>7,653,117.05</u>
Proportionate share of net pension liability	<u>\$ 245,889.29</u>

At June 30, 2017, the School District reported a liability of \$245,889.29 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the School District's proportion was .0727935%, which is an increase of .0053323% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$72,115. At June 30, 2017 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 85,599.51	\$
Changes in assumption	147,276.03	
Net difference between projected and actual earnings on pension plan investments	273,512.00	
Changes in proportion and difference between District contributions and proportionate share of contributions	2,684.06	19,774.52
District contributions subsequent to the measurement date	<u>95,503.76</u>	
TOTAL	<u>\$ 604,575.36</u>	<u>\$ 19,774.52</u>

\$95,503.76 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:

2018	\$ 136,639.72
2019	82,653.32
2020	173,187.91
2021	<u>113,906.60</u>
TOTAL	<u>\$ 506,387.55</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	<u>2.00%</u>	0.7%
Total	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the School's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 1,375,993.20	\$ 245,889.29	\$ (675,831.81)

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

NOTE 11 - JOINT VENTURES

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE

The school district participates in the Northeast Educational Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing appropriate educational support services for all children and to offer, on a cooperative fee assessment basis, services that the districts would not be able to provide as effectively or as economically acting alone, to the member school districts.

The members of the co-op and their relative percentage participation in the co-op as of June 30, 2017 are as follows:

<u>School District</u>	<u>Percent</u>	<u>School District</u>	<u>Percent</u>
Arlington	3.65%	Hamlin	9.99%
Britton-Hecla	6.05%	Henry	2.31%
Castlewood	3.53%	Iroquois	3.05%
Clark	5.14%	Lake Preston	2.23%
De Smet	4.01%	Rosholt	3.20%
Deubrook	5.13%	Sioux Valley	8.96%
Deuel	6.95%	Summit	2.13%
Elkton	4.75%	Waubay	2.44%
Enemy Swim	2.70%	Waverly	3.30%
Estelline	3.43%	Webster	7.15%
Florence	3.30%	Willow Lake	2.95%
Grant-Deuel	0.96%	Wilmot	2.69%

The co-op's governing board is composed of one school board member representative from each member school district. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget. The school district retains no equity in the net position of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above. Separate financial statements for the joint venture are available from the Northeast Educational Services Cooperative.

At June 30, 2017, this joint venture had total assets of \$1,881,356.66, total liabilities of \$493,389.22, and total net position of \$ 1,387,967.44.

NOTE 12 - RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2017, the school district managed its risks as follows:

Employee Health Insurance

The school district joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool operating as a common risk management and insurance program for South Dakota local government entities through the Associated School Boards of South Dakota. The school district pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

The school district does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The school district purchases liability insurance for risks related to torts, theft or damage to property, and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The school district purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

The school district has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The school district has assigned equity in the General Fund in the amount of \$48,523.80 for the payment of future unemployment benefits.

During the year ended June 30, 2017, no claims for unemployment benefits were paid. At June 30, 2017, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

NOTE 13 – SIGNIFICANT CONTINGENCIES - LITIGATION

At June 30, 2017, the School District was not involved in any litigation.

NOTE 14 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2017 were as follows:

	Transfer To :						
Transfer From:	Governmental Activities				Business Type Activities		
Governmental Activities	General Fund	Pension	Capital Outlay	Special Education	Food Service	Driver's Education	Totals
Capital Outlay	\$ 128,900.00	\$	\$	\$	\$	\$	\$ 128,900.00
General Fund		4,200.00		57,596.49	72,801.88	4,021.85	138,620.22
Bond Redemption			109,560.85				109,560.85
Totals	\$ 128,900.00	\$ 4,200.00	\$ 109,560.85	\$ 57,596.49	\$ 72,801.88	\$ 4,021.85	\$ 377,081.07

To close out the Bond Redemption Fund, \$109,560.85 was transferred into Capital Outlay at year end.

The Capital Outlay Fund transferred \$128,900 to General Fund to be used to help pay utilities.

The General Fund transferred monies to the Pension Fund, Special Education Fund, Food Service and the Driver's Education Fund to help fund cash shortages.

REQUIRED SUPPLEMENTARY INFORMATION
ESTELLINE SCHOOL DISTRICT NO. 28-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 755,613.00	\$ 755,613.00	\$ 943,009.52	\$ 187,396.52
Prior Years' Ad Valorem Taxes	5,000.00	5,000.00	10,466.63	5,466.63
Utility Taxes	94,000.00	94,000.00	99,672.05	5,672.05
Penalties and Interest on Taxes	2,000.00	2,000.00	1,968.02	(31.98)
Earnings on Investments/Deposits	5,000.00	5,000.00	8,598.25	3,598.25
Cocurricular Activities:				
Admissions	10,000.00	10,000.00	14,784.45	4,784.45
Other Revenue from Local Sources:				
Contributions and Donations	1,000.00	1,000.00	1,194.22	194.22
Charges and Services	7,500.00	7,500.00	3,256.41	(4,243.59)
Other	800.00	800.00	8,801.18	8,001.18
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	8,500.00	8,500.00	15,537.40	7,037.40
Revenue in lieu of Taxes			112.75	112.75
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	965,414.00	965,414.00	762,053.67	(203,360.33)
Restricted Grants-in-Aid			190.00	190.00
Other State Revenue			500.00	500.00
Revenue from Federal Sources:				
Unrestricted Grants-in-Aid	200.00	200.00		(200.00)
Restricted Grants-in-Aid				
Received from Federal				
Government Through the State	111,141.00	111,141.00	70,274.98	(40,866.02)
Total Revenue	<u>1,966,168.00</u>	<u>1,966,168.00</u>	<u>1,940,419.53</u>	<u>(25,748.47)</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	577,108.00	643,708.00	636,882.67	6,825.33
Middle/Junior High	162,658.00	162,658.00	136,176.27	26,481.73
High School	454,407.00	522,407.00	522,207.81	199.19
Preschool Services	23,598.00	50,598.00	50,552.05	45.95

REQUIRED SUPPLEMENTARY INFORMATION
ESTELLINE SCHOOL DISTRICT NO. 28-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Special Programs:				
Educationally Deprived	65,986.00	65,986.00	67,655.23	(1,669.23)
Support Services:				
Pupils:				
Guidance	59,274.00	59,274.00	58,698.40	575.60
Health	900.00	900.00	2,073.95	(1,173.95)
Support Services - Instructional Staff:				
Improvement of Instruction	2,400.00	2,400.00	5,088.33	(2,688.33)
Educational Media	65,817.00	65,817.00	65,283.60	533.40
Support Services - General Administration:				
Board of Education	22,700.00	22,700.00	23,675.21	(975.21)
Executive Administration	57,709.00	74,209.00	75,055.51	(846.51)
Support Services - School Administration:				
Office of the Principal	110,330.00	225,430.00	227,376.76	(1,946.76)
Other	700.00	700.00	152.34	547.66
Support Services - Business:				
Fiscal Services	77,220.00	98,220.00	98,863.94	(643.94)
Operation and Maintenance of Plant	253,306.00	295,306.00	295,958.42	(652.42)
Pupil Transportation	115,438.00	115,438.00	119,987.21	(4,549.21)
Nonprogrammed Charges:				
Early Retirement	3,868.00	3,868.00	4,198.36	(330.36)
Cocurricular Activities:				
Male Activities	19,698.00	19,698.00	18,120.26	1,577.74
Female Activities	22,471.00	22,471.00	21,597.62	873.38
Transportation	6,450.00	6,450.00	8,737.73	(2,287.73)
Combined Activities	35,931.00	35,931.00	45,058.72	(9,127.72)
Total Expenditures	<u>2,137,969.00</u>	<u>2,494,169.00</u>	<u>2,483,400.39</u>	<u>10,768.61</u>
Excess of Revenues over Expenditures	<u>(171,801.00)</u>	<u>(528,001.00)</u>	<u>(542,980.86)</u>	<u>(14,979.86)</u>
Other Financing Sources:				
Transfers (Out)		(134,285.00)	(134,420.22)	(135.22)
Transfers In			133,100.00	133,100.00
Total Other Financing Sources		<u>(134,285.00)</u>	<u>(1,320.22)</u>	<u>132,964.78</u>
Net Change in Fund Balances	<u>(171,801.00)</u>	<u>(662,286.00)</u>	<u>(544,301.08)</u>	<u>117,984.92</u>
Fund Balance - Beginning	959,489.11	959,489.11	959,489.11	
Prior Period Adjustment	<u>(11,852.84)</u>	<u>(11,852.84)</u>	<u>(11,852.84)</u>	
Adjusted Beginning Fund Balance	<u>947,636.27</u>	<u>947,636.27</u>	<u>947,636.27</u>	
FUND BALANCE - ENDING	<u>\$ 775,835.27</u>	<u>\$ 285,350.27</u>	<u>\$ 403,335.19</u>	<u>\$ 117,984.92</u>

REQUIRED SUPPLEMENTARY INFORMATION
ESTELLINE SCHOOL DISTRICT NO. 28-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 293,000.00	\$ 293,000.00	\$ 284,264.48	\$ (8,735.52)
Prior Years' Ad Valorem Taxes	500.00	500.00	2,265.21	1,765.21
Penalties and Interest on Taxes	350.00	350.00	601.88	251.88
Other Revenue from Local Sources:				
Contributions and Donations			15,000.00	15,000.00
Revenue from Intermediate Sources:				
Revenue in Lieu of Taxes			71.87	71.87
Revenue from Federal Sources:				
Restricted Grants-in-Aid				
Received from Federal				
Government Through the State			19,691.02	19,691.02
Total Revenue	<u>293,850.00</u>	<u>293,850.00</u>	<u>321,894.46</u>	<u>28,044.46</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	15,000.00	15,000.00	26,375.29	(11,375.29)
High School	15,000.00	15,000.00	16,844.86	(1,844.86)
Special Programs:				
Educationally Deprived			3,778.02	(3,778.02)
Support Services- Instructional Staff:				
Educational Media	34,000.00	34,000.00	20,235.66	13,764.34
Support Services - General Admin:				
Executive Administration			1,041.00	(1,041.00)
Support Services - School Admin:				
Office of the Principal			1,290.99	(1,290.99)
Support Services - Business:				
Fiscal Services	10,000.00	10,000.00	3,869.00	6,131.00
Facilities Acquisition & Construction			15,500.00	(15,500.00)
Operation and Maintenance of Plant	180,000.00	180,000.00	222,149.67	(42,149.67)
Student Transportation	55,000.00	55,000.00		55,000.00
Food Services	5,000.00	5,000.00	4,795.00	205.00
Debt Services	15,500.00	15,500.00	8,643.62	6,856.38
Cocurricular Activities:				
Combined Activities	10,000.00	10,000.00	12,444.57	(2,444.57)
Total Expenditures	<u>339,500.00</u>	<u>339,500.00</u>	<u>336,967.68</u>	<u>2,532.32</u>
Excess of Revenue Over(Under) Expenditure	<u>(45,650.00)</u>	<u>(45,650.00)</u>	<u>(15,073.22)</u>	<u>30,576.78</u>
Other Financing Sources and (Uses)				
Transfer In			109,560.85	109,560.85
Transfer (Out)		(128,900.00)	(128,900.00)	
Total Other Financing Sources (Uses)		<u>(128,900.00)</u>	<u>(19,339.15)</u>	<u>109,560.85</u>
Net Change in Fund Balance	<u>(45,650.00)</u>	<u>(174,550.00)</u>	<u>(34,412.37)</u>	<u>140,137.63</u>
Fund Balance - Beginning	<u>905,070.77</u>	<u>905,070.77</u>	<u>905,070.77</u>	
FUND BALANCE - ENDING	<u>\$ 859,420.77</u>	<u>\$ 730,520.77</u>	<u>\$ 870,658.40</u>	<u>\$ 140,137.63</u>

REQUIRED SUPPLEMENTARY INFORMATION
ESTELLINE SCHOOL DISTRICT NO. 28-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 367,182.00	\$ 367,182.00	\$ 444,187.99	\$ 77,005.99
Prior Years' Ad Valorem Taxes	200.00	200.00	2,976.19	2,776.19
Penalties and Interest on Taxes	300.00	300.00	811.28	511.28
Other Revenue from Local Sources				
Medicaid			5,318.47	5,318.47
Other			31,310.00	31,310.00
Revenue from Intermediate Sources:				
Revenue in Lieu of Taxes			101.26	101.26
Revenue from State Sources:				
Grants in Aid:				
Other State Revenue	44,402.00	44,402.00	211,550.00	167,148.00
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid				
Received from Federal				
Government through State	60,555.00	60,555.00		(60,555.00)
Total Revenue	<u>472,639.00</u>	<u>472,639.00</u>	<u>696,255.19</u>	<u>223,616.19</u>
Expenditures:				
Special Programs				
Programs for Special Education	384,826.00	418,826.00	402,700.14	16,125.86
Support Services				
Pupils:				
Guidance	750.00	750.00	491.52	258.48
Health Services	25,000.00	25,000.00	21,466.00	3,534.00
Psychological	13,000.00	13,000.00	9,372.00	3,628.00
Speech Pathology	40,000.00	40,000.00	35,230.56	4,769.44
Audiology	1,750.00	1,750.00	1,677.00	73.00
Student Therapy Services	40,000.00	40,000.00	33,847.28	6,152.72
Support Services - General Administration				
Board of Education	1,075.00	1,075.00	1,283.84	(208.84)
Support Services - Special Education				
Transportation - Early Childhood	34,200.00	34,200.00	85,765.21	(51,565.21)
Other Special Education Costs	38,120.00	119,120.00	97,700.24	21,419.76
Total Expenditures	<u>578,721.00</u>	<u>693,721.00</u>	<u>689,533.79</u>	<u>4,187.21</u>
Excess of Revenue Over(Under) Expenditure	(106,082.00)	(221,082.00)	6,721.40	227,803.40
Other Financing Sources and (Uses)				
Transfer In			57,596.49	57,596.49
Net Change in Fund Balance	<u>(106,082.00)</u>	<u>(221,082.00)</u>	<u>64,317.89</u>	<u>285,399.89</u>
Fund Balance - Beginning	<u>(48,373.31)</u>	<u>(48,373.31)</u>	<u>(48,373.31)</u>	
FUND BALANCE - ENDING	<u>\$ (154,455.31)</u>	<u>\$ (269,455.31)</u>	<u>\$ 15,944.58</u>	<u>\$ 285,399.89</u>

REQUIRED SUPPLEMENTARY INFORMATION
ESTELLINE SCHOOL DISTRICT NO. 28-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes		\$	\$ 38,460.58	\$ 38,460.58
Prior Years Ad Valorem Taxes			610.68	610.68
Penalties and Interest on Taxes			158.78	158.78
Revenue in Lieu of Taxes			21.58	21.58
Total Revenue			<u>39,251.62</u>	<u>39,251.62</u>
Expenditures:				
Nonprogrammed Charges:				
Early Retirement		4,200.00		4,200.00
Total Expenditures		<u>4,200.00</u>		<u>4,200.00</u>
Excess of Revenue Over (Under)				
Expenditures		(4,200.00)	<u>39,251.62</u>	<u>43,451.62</u>
Transfer (Out)			<u>(4,200.00)</u>	<u>(4,200.00)</u>
Net Change in Fund Balances		(4,200.00)	35,051.62	39,251.62
Fund Balance - Beginning	<u>123,554.31</u>	<u>123,554.31</u>	<u>123,554.31</u>	
FUND BALANCE - ENDING	<u>\$123,554.31</u>	<u>\$119,354.31</u>	<u>\$158,605.93</u>	<u>\$ 39,251.62</u>

Schedule of Required Supplementary Information
ESTELLINE SCHOOL DISTRICT NO. 28-2
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)
South Dakota Retirement System

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability (asset)	0.0686316%	0.0674612%	0.0727935%
District's proportionate share of net pension liability (asset)	\$ (494,463)	\$ (286,122)	\$ 245,889
District's covered-employee payroll	\$ 1,200,183	\$ 1,231,655	\$ 1,384,164
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.20%	-23.23%	17.76%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%	96.9%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year

Schedule of Required Supplementary Information
ESTELLINE SCHOOL DISTRICT NO. 28-2
SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS
South Dakota Retirement System

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ <u>72,011</u>	\$ <u>73,899</u>	\$ <u>83,050</u>	\$ <u>95,504</u>
Contributions in relation to the contractually required contribution	\$ <u>72,011</u>	\$ <u>73,899</u>	\$ <u>83,050</u>	\$ <u>95,504</u>
Contribution deficiency (excess)	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>
District's covered-employee payroll	\$ 1,200,183	\$ 1,231,655	\$ 1,384,164	\$ 1,591,728
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%

ESTELLINE SCHOOL DISTRICT NO. 28-2
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget

NOTE 1 – BUDGET AND BUDGETARY ACCOUNTING

The School District followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular board meeting in May of each year the board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined, during the year, that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major Special Revenue fund.
11. Budgets for the General Fund and each major Special Revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 2- GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services- Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
Estelline School District No. 28-2
Hamlin County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Estelline School District No. 28-2, Hamlin County, South Dakota (School District), as of June 30, 2017 for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item number 2017-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. This instance is shown in the Schedule of Audit Findings as Finding 2017-002.

School District's Response to Findings

Estelline School District's response to the finding identified in our audit is in the accompanying Corrective Action Plan. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Quam, Berglin & Post, P.C.
Certified Public Accountants

January 17, 2018

**ESTELLINE SCHOOL DISTRICT NO. 28-2
SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

PRIOR AUDIT FINDINGS:

Prior Finding Number 2016-001:

A material weakness was reported for a lack of segregation of duties for revenues. This comment results from the size of the district, which precludes staffing at a level sufficient to provide an ideal environment for internal control. This finding has not been corrected and is being restated under current audit findings as audit finding number 2017-001

Prior Finding Number 2016-002:

A material weakness was reported for expenditures exceeding the total amounts budgeted for the Special Education Fund. This finding has not been corrected and is being restated under current audit findings as audit finding number 2017-002

Prior Finding Number 2016-003:

A material weakness was reported for publishing supplemental budgets in the prescribed format, within the time requirements. This finding has been corrected.

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

Audit Finding Number 2017-001:

There is a material weakness resulting from a lack of segregation of duties for revenues.

Criteria:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Condition, Cause and Effect:

The size of the accounting staff employed by the entity precludes an adequate segregation of duties.

Recommendation:

We recommend that Estelline School District officials be cognizant of this lack of segregation of duties of revenues and attempt to provide compensating controls, whenever and wherever possible and practical.

Internal Control-Related Finding-Material Weakness and Compliance Related:

Audit Finding Number 2017-002:

Criteria:

There is a material weakness resulting from expenditures exceeding the total amounts budgeted resulting in the excessive use of the available fund balance for the Special Education Fund.

Condition, Cause and Effect:

SDCL 13-11-2 requires that the school board adopt a levy sufficient to meet the budget for the year in a format prescribed by the state of South Dakota. The budget adopted for the Special Education Fund for fiscal year 2017 did not properly use the available fund balance and resulted in a negative fund balance.

Recommendation:

We recommend that Estelline School District officials be aware of and adhere to the budgetary requirements when adopting future budgets.

Corrective Action Plan:

Amy Miller, Business Manager for Estelline School District is the contact person responsible for the corrective action plans for these comments. The School District is aware of these problems and have prepared a response to these findings on the following page.

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Jim Lentz, Junior High /High School Principal/Superintendent

Justin Pitts, Elementary Principal

Gwen Taylor, 7 - 12 Assistant Principal

Amy Miller, Business Manager

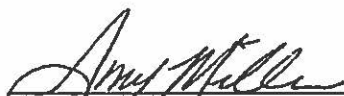
CORRECTIVE PLAN OF ACTION


June 30, 2017

Estelline School District No. 28-2 has considered the lack of segregation of duties for the revenues function. At this time it is not cost effective for Estelline School District to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by Estelline School District to decrease the likelihood that financial data is adversely affected.

The Estelline School District's Board will continue to monitor the necessity to have segregation of duties for revenues and implement such a segregation as budget dollars and board authority allow.

The Board has considered the finding for budgeting in excess of available fund balance for the Special Education Fund. The school district will monitor the budgets of each fund more closely to ensure that they will adopt future budgets per requirements.


Business Manager


Superintendent

The Estelline School District 28-2 resolves not to discriminate against anyone because of race, sex, creed or national origin. Educational programs and/or activities and employment opportunities will be offered without regard to sex, color, national origin or handicap.